



Further to Friday's note I can advise we are today closing on behalf of Manulife, the recirculation of securities for Copernican World Banks Split Inc. Class A Shares and Preferred Shares (CBW and CBW.PR.A) and AIC Global Financial Split Corp. Class A Shares (ASC). We will for the rest of the week and early next, be looking to re-circulate some shares of Copernican International Premium Dividend Fund (CPM).

Last Friday's Canadian and U.S. employment data were positive surprises with U.S. reporting its lowest monthly job losses since the recession began. Worldwide, the improvements in financial conditions are providing support for a rebound in the economic activity and an upgrade in the business conditions. Most purchasing managers indices (PMI) point towards a bottoming in the manufacturing activity with the latest PMI (November reading) from the Institute for Supply Management (ISM) indicating a further expansion of the manufacturing sector in U.S.

The U.S. leading economic indicators (LEI) have recorded the seventh consecutive month of improvement in October. We believe, three consecutive months of increases, or three consecutive months of decreases traditionally signal an upturn or a downturn in the economy within three to six months. In its latest quarterly release the US Department of Labor unveiled a quarterly productivity increase of 8.1%, on top of the previous increase of 6.9%; such levels of productivity growth haven't been seen since the fall of 2003 and are characteristic of an end of recession.

Policymakers continue to accommodate a recovery in bank profits. The U.S. 2 year/10 year treasury spread is 2.65% and the U.K.'s 2 year/10 year treasury spread is 2.51% - enabling financial services companies' assets booked at these levels, to be very profitable, so enabling them to accelerate the absorption of anticipated consumer credit losses.

Our concerns are mostly focused around the later cycle issues facing financial services companies - particularly commercial real estate and unsecured consumer loans/credit card loans. However, commercial real estate exposure is more acutely held by US regional banks - rather than larger more diversified global financial services companies. The number of small U.S. banks failing continues to grow (130 year-to-date) but their franchises are being acquired/absorbed as convergence of the financial services industry accelerates - favouring we believe the stronger, better managed banks. A concern which remains is the extent to which loan modifications are an exercise in loss deferral but for the larger franchises the quantum of proactive provisioning continues to act as a differentiator of quality which we believe has still to be fully appreciated.

The U.S. 30 year mortgage market has remained low at 4.71% (it first dropped below the psychologically important 5% in late March before rising to 5.59% in June and fell back in October) as the Government and Fed continue to incentivize new home owners (the U.S. administration extended and expanded the first-time home buyer tax credit until April of next year) and support/reschedule existing stressed mortgagors (through lower rates) U.S. housing inventory is being slowly reduced (6.7 months supply of new houses and 7.0 months supply of existing houses - which we believe are now in a more normal range) as both new and existing house sales show significant month on month gains as a result of these massive government incentive programs. We believe it is premature to consider a recovery in house prices but a measure of stability from which to build is to be welcomed....particularly for those financial services companies holding structured assets in their portfolios.

The amended Federal Reserve Stats for large domestically chartered commercial banks in the US shows that the quantum of net unrealized losses on available for sale securities peaked in December at -\$87.4 billion ...improving to -\$21.7 billion by end September and as at November 25 was reported as -\$3.3 billion (see chart below). The pricing of these securities will in our view become increasingly volatile as liquidity now drives more normalized prices but the positive trend is much welcomed. The writing back up of these assets feeds through to the book value and endorses the strategy of many large financial services companies to hold rather than trade such assets.



The VIX (volatility index) is 22.2, below the levels experienced last August/September (and well off the highs of 70-80 witnessed late September/October). Last week's rise in the VIX can be attributed to Dubai World's announced attempt to reschedule its debt. While, by its characteristics, the VIX will remain volatile, it is we believe

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further evidence of markets reacclimatizing to risk – typically we believe a VIX level below 25 augurs well for quality equities. And credit default swaps across most leading financial companies are trading in a gradually improving range of 1%-2% (compared to 5%-7% late September/early October).

We believe the largest impediment to a sustainable rally remains government intervention, not the global economy. We believe that as signs of stabilization gain traction the market will become more discerning, favouring quality franchises rather than the apparent recovery of weaker franchises. Quality is likely to embrace those franchises with attractive market footprints, stabilizing returns on equity (and credit in the case of financials), efficient operating platforms and robust net margins based on solid core franchises.

Spreads on the closed-end funds are narrowing but remain wide and so in our view are very attractively priced to purchase.

At the close of business on Fridays and at the end of each month we publish the Net Asset Values of our funds onto our Portland website at <http://www.portlandinvestic.com/Funds/WeeklyPricing.aspx>.

The details published last Friday are replicated here below from which you can see we also highlight whether the funds share prices are trading at a premium or discount to their respective Net Asset Value.

A handwritten signature in black ink, appearing to read "Chris Wain-Lowe". The signature is fluid and cursive, with a large loop at the end.

Chris Wain-Lowe

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